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RUEHBJ/AMEMBASSY BEIJING PRIORITY 0250
RUEHCV/AMEMBASSY CARACAS PRIORITY 1458
RUMIAAA/HQ USSOUTHCOM J2 MIAMI FL PRIORITY
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C O N F I D E N T I A L BRIDGETOWN 001095

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SUBJECT: PETROCARIBE UPDATE #22 - VENEZUELA HALTS FUEL SUPPLY TO BARBADOS IN FAVOR OF CHINA

REF: BRIDGETOWN 877 AND PREVIOUS

Classified By: DCM Mary Ellen T. Gilroy for reasons 1.4 (b) and (d).

¶11. (C) Summary: In early June, Venezuela abruptly cut off the supply of Orimulsion fuel oil to the Arawak Cement Plant in Barbados with a year left in the contract, rerouting future shipments to China. According to an Arawak executive, Venezuela is the only supplier of Orimulsion, and the plant cannot produce cement profitably using the alternative fuel, Bunker C. The Government of Barbados has been unsuccessful thus far in convincing the Chinese and Venezuelans to reinstate Arawak's contract. It appears China's quest for raw materials has combined with Venezuelan petrodiplomacy to the detriment of Barbados. The sudden and callous way that PDVSA canceled Barbados' Orimulsion contract may help convince the Eastern Caribbean that Venezuela is not a reliable oil supplier. End Summary.

This Shipment? It's Your Last One

¶12. (C) On June 21, Matthew Thornhill, production manager at the Arawak Cement Plant, told Econoff that Venezuela cut off the plant's supply of the heavy fuel oil Orimulsion with no advance notice and a year left in the contract. He recounted how the Venezuelans did not tell Trinidad Cement Limited, Arawak's parent company, of the move until the plant's final Orimulsion shipment was on its way to Barbados. (Note: Venezuela has a patent for Orimulsion and is the sole supplier of the fuel in the world. The only petroleum product Barbados purchases from Venezuela is Orimulsion for the cement plant. Other oil imports come from Trinidad. End Note.)

No Good Alternative

¶13. (SBU) The plant switched from Bunker C oil to Orimulsion in 1997. Reverting back to Bunker C, which is nearly three times as expensive, is not a viable long-term option for the plant. Compounding this problem, the government regulates cement prices in Barbados, making it difficult for the company to pass on the higher fuel cost to consumers. The 300 jobs at the cement plant may be in jeopardy if Barbados cannot secure a supply of Orimulsion or a similarly cheap fuel oil. The plant is temporarily using Bunker C, but the high cost of the fuel may make future cement production

unsustainable.

Chinese/Venezuelan Joint Venture

¶4. (SBU) According to press reports, the Chinese and Venezuelan state oil companies started producing Orimulsion in Venezuela via a joint venture in April 2006. Reportedly, the entire Venezuelan output of Orimulsion will eventually head to China, meaning other consumers of the fuel will likely have their contracts canceled. This shift is apparently part of Venezuela's increased commercial ties to China and its search for oil export markets outside the United States.

Barbados Government on the Case

¶5. (C) The Barbados Minister of State in the Ministry of Foreign Affairs and Foreign Trade, Kerrie Symmonds, reportedly used the June 6 visit to Barbados of Chinese Vice Minister of Foreign Affairs, Yang Jiechi (septel), to lobby for the Chinese National Petroleum Company to supply Arawak with Orimulsion. Additionally, Thornhill remarked that the Barbadian and Trinidadian ambassadors to Caracas have asked the Venezuelan government and state oil company (PDVSA) to reconsider the cutoff of Orimulsion to Barbados. (Note: Since the Chinese and Venezuelan state oil companies jointly produce Orimulsion, both governments have a say in where the product goes. End Note.) Thornhill said the Barbadian government was confident that it could convince China to spare some Orimulsion, but he was not so sure how this might come about. Thus far, diplomatic efforts have not succeeded in restoring the flow of the heavy fuel.

Comment

¶6. (C) The unexpected diversion of Orimulsion supplies from Barbados to China brings together two main hemispheric trends, China's insatiable thirst for raw materials and Venezuelan petrodiplomacy. Until this latest Venezuelan move, these trends had little effect on Barbados' economy. Barbados rejected Venezuela's PetroCaribe scheme a year ago, and this sudden supply disruption may be an attempt at retribution. In any case, the Caribbean governments that did sign PetroCaribe may have second thoughts about Venezuela's reliability as an energy supplier given PDVSA's unforeseen cancellation of Barbados' Orimulsion contract a year early.
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